

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-11 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 FEAE-00 SAJ-01 ACDA-05

/104 W

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R 161917Z JAN 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8209

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION NATO BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

AMCONSUL BELFAST

AMCONSUL EDINBURGH

AMCONSUL LIVERPOOL

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E.O. 11652: N/A

TAGS: ELAB. PINT. UK, EEC

SUBJECT: CONVERSATION WITH SHIRLEY WILLIAMS: BULLISH ABOUT  
BRITAIN

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REF: (A) LONDON 462; (B) LONDON 724

SUMMARY - SHIPLEY WILLIAMS, SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION, ECHOED THE HIGH DEGREE OF CONFIDENCE IN THE FUTURE OF THE BRITISH ECONOMY WHICH HAD CHARACTERIZED THE PRIME MINISTER'S REMARKS TO THE AMBASSADOR (REF A), DURING A MEETING SHE HAD WITH LONDON-BASED LABOR ATTACHES. SHE ALSO DISCUSSED A RANGE OF OTHER ISSUES INCLUDING THE FUTURE OF THE GOVERNMENT'S INCOMES POLICY, THE RELATIONSHIP BETWEEN THE UNIONS AND THE GOVERNMENT, DEVOLUTION, AND THE EC. END SUMMARY.

1. MRS. WILLIAMS SAID THAT THE GOVERNMENT'S ANTI-INFLATION MEASURES ARE WORKING ACCORDING TO PLAN AND THAT THIS IS INDEED A "PEMARKABLE ACHIEVEMENT" WHICH HAD BEEN ACCOMPLISHED BY NO OTHER COUNTRY IN AN EIGHTEEN MONTH PERIOD USING DEMOCRATIC METHODS. SHE EMPHASIZED THAT IN ORDER FOR A PRICES AND INCOMES POLICY TO BE SUCCESSFUL IT COULD NOT BE FORCED UOON THE COUNTRY WITHOUT THE SUPPORT OF THE TRADE UNIONS AND INDUSTRY. WHILE SHE HAD ADMIRERD HEATH FOR HIS FERVENT SUOPORT OF A PRICES AND INCOMES POLICY. HE PAID A POLITICAL PRICE BECAUSE OF HIS FAILURE TO ENLIST UNION SUPPORT.

2. CONVERSELY, THE INCOMING LABOR GOVERNMENT FAILED TO GENERATE CONFIDENCE WITHIN THE BUSINESS COMMUNITY DURING ITS FIRST YEAP IN OFFICE. NOW, HOWEVER, SINCE THE IMOLEMENTATION OF THE ANTI-INFLATION POLICY. THE CONFIDENCE OF INDUSTRY IS RETURNING. SHE CREDITS DENIS HEALEY. MICHAEL FOOTE AND HERSELF (WITHIN THE CABINET) AND JACK JONES AND LEN MURRAY (WITHIN THE TRADE UNION MOVEMENT) WITH BEING THE CHIEF ARCHITECTS OF THE SIX POUND PAY RESTRAINT POLICY.

3. PRICES: SHE NOTED THAT IMPORTED RAW MATERIALS PRICES HAVE NOT RISEN AS HIGH AS ORIGINALLY FORECAST. WHILE SHE FEELS THAT PRICE CONTROLS ARE NOT EFFECTIVE OVER THE LONG TERM, THEY ARE VITALLY IMPORTANT IN THE SHORT TERM. FOR THAT REASON, SHE IS MAKING A STRONG EFFORT TO GET MANUFACTURERS TO ACCEPT A NO-MORE-THAN FIVE PERCENT INCREASE FOR SIX MONTHQ BEGINNING IN FEBRUARY IN A BASKET OF BASIC LIMITED OFFICIAL USE

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ESSENTIALS. MANUFACTURERS WILL BE ALLOWED TO INCREASE PRICES ON LUXURY ITEMS (AS A PARTIAL OFFSET). SHE ACKNOWLEDGED THAT THERE IS SOME TRUTH TO THE CHARGE THAT THE PRESENT PRICE CODE LIMITS INCENTIVE TO MANUFACTURERS TO INAREASE PPRODUCTIVITY, BUT THERE ARE CERTAIN AREAS, SUCH AS THE RETAIL TRADE, WHERE THE PRICE CODE DOES NOT PREVENT BETTEP PROFITS THROUGH COMPETITIVE METHODS. SHE ADDED THAT THE PRICE CODE WILL BE AMENDED TO ALLOW FIRMS

CREDIT FOR INVESTMENT.

4. THE NEXT WAGE AND PROFIT MARGINS POLICY: SHE SAID THAT THE NEXT PHASE OF THE INCOMES POLICY WHICH SHOULD BECOME EFFECTIVE AUGUST 1, PROBABLY WILL INVOLVE A COMBINATION OF FLAT RATE INCREASE WITH A PERCENTAGE FIGURE (REF B). SHE ALSO BELIEVES THAT AN AGREEMENT CAN BE RACHED BETWEEN THE UNIONS AND INDUSTRY ON INCREASED PROFIT MARGINQ PROVIDING THERE CAN BE AN ASSURANCE THAT THESE PROFITS WILL BE USED FOR INVESTMENT IN PRODUCTION RATHER THAN AQ DIVIDENDS OR FOR PROPERTY SPECULATION SUCH AS OCCURRED DURING THE 1972-3 PERIOD.

5. UNEMPLOYMENT: MRS. WILLIAMS WAS NOT SANGUINE ABOUT AN EARLY IMPROVEMENT IN THE UNEMPLOYMENT PICTURE EVEN IF

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THERE WERE TO BE MASSIVE INVESTMENT IN UK INDUSTRY. SHE BELIEVES THAT THE GOVERNMENT MIGHT BE FORCED TO CONSIDER THE INTRODUCTION OF JOB CREATION SCHEMES ALONG THE LINES  
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OF FDR'S "NEW DEAL" PROGRAMS. SHE WAS INTERESTED TO LEARN THAT THERE IS A REVIVED INTEREST IN CONGRESS IN AN EXPANDED CCC PROGRAM ALONG THE LINES OF THE 1930'S VERSION. (COMMENT: WHILE MRS. WILLIAMS CLEARLY UNDERSTANDS THE NEED TO RESPOND TO TRADE UNION DEMANDS THAT GOVERNMENT DO SOMETHING ABOUT UNEMPLOYMENT, SHE IS QUITE SYMPATHETIC TO THE CHANCELLOR'S OFT-EXPRESSED DETERMINATION TO HOLD THE LINE ON PUBLIC EXPENDITURES. IF THE CONSENSUS FORECAST OF PEAK UNEMPLOYMENT OF 1.4 MILLION IS CORRECT, IT IS UNLIKELY THAT ANY MAJOR "NEW DEAL" STYLE JOB CREATION PROGRAMS WILL BE INTRODUCED.)

6. RELATIONS BETWEEN UNIONS AND THE GOVERNMENT: WHAT IS MOST VITAL, SHE SAID, IS THAT THE CLOSE RELATIONSHIP BETWEEN THE UNIONS AND THE GOVERNMENT BE MAINTAINED. THIS RELATIONSHIP HAS HAD THE EFFECT OF TRANSFORMING FORMER MILITANTS SUCH AS JACK JONES AND MICHAEL FOOT INTO MODERATES AND THUS HAS PROVIDED A KEY FACTOR IN THE GOVERNMENT'S SUCCESS. MOREOVER, THERE HAS BEEN A CONTINUING SWING TO THE CENTER IN PUBLIC OPINION, REFLECTED IN THE RESULTS OF RECENT TRADE UNION ELECTIONS, ON THE ONE HAND. AND IN THE POWER SHIFT IN GOVERNMENT TOWARD THE CENTER, ON THE OTHER. SHE WAS ASKED: "DOES THIS MEAN THAT BENN IS DEAD?" SHE REPLIED: "YES." SHE EMPHASIZED THAT THIS MEANS NOT JUST A CHANGE IN STYLE BUT A FUNDAMENTAL CHANGE IN VIEW. SHE ACCEPTED THAT THE NATIONAL EXECUTIVE COMMITTEE OF THE LABOR PARTY WAS BITTERLY FIGHTING AGAINST THE TIDE OF MODERATION WITHIN THE CABINET AND THE PARTY BUT SHE BELIEVES STRONGLY THAT THE NEC IS BECOMING INCREASINGLY IRRELEVANT IN RELATION TO GOVERNMENT.

7. DEVOLUTION: SCOTTISH NATIONALISM, IN HER VIEW, RESULTS FROM THE LONG-TIME BELIEF IN SCOTLAND THAT IT HAS BEEN ECONOMICALLY NEGLECTED AND ALSO THAT OIL WILL BE THE SCOTS SALTATION. SHE BELIEVES THAT THE SNP WILL REMAIN AN IMPORTANT ELEMENT UNTIL IT DAWNS ON THE SCOTS THAT OIL BENEFITS WILL HAVE ONLY A LIMITED DURATION (AND PRESUMABLY UNTIL SCOTTISH ECONOMIC GRIEVANCES HAVE BEEN RESOLVED). IN THE MEANWHILE, SHE THINKS THAT THE EFFECT OF SNP POWER WILL REMAIN AND WILL RESULT IN A LIMITED OFFICIAL USE

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SERIES OF MINORITY GOVERNMENTS FOR SOME TIME TO COME. HOWEVER, SHE IS CONFIDENT THAT THE LABOR GOVERNMENT WILL REMAIN IN POWER UNTIL 1978 IF IT WISHES TO DO SO.

8. THE EC: MRS. WILLIAMS, A STAUNCH EUROPEANIST, ACKNOWLEDGED AONSIDERABLE DISAPPOINTMENT ABOUT THE EC. SHE BELIEVES THAT UNLESS THE EC CAN DEAL WITH MAJOR PROBLEMS INVOLVING THE FUTURE OF EUROPE SUCH AS THE COMMON DEFENSE AND OTHER FUNDAMENTAL POLITICAL ISSUES IT WILL REMAIN "ALL STRUCTURE AND LITTLE CONTENT." SHE READILY ACKNOWLEDGED THAT THE UK IS ONE OF THE MEMBER COUNTRIES WHICH CONTRIBUTES ITS SHARE TO THIS STATE OF AFFAIRS. UNLESS THE EC ADVANCES NOT ONLY IN TERMS OF NEW STRUCTURES AND PROCEDURES BUT ALSO IN TERMS OF A COMMON POLICY, HER FAITH IN THE COMMUNITY WILL BE SOMEWHAT DIMINISHED.

9. COMMENT: MRS. WILLIAMS HAS A REPUTATION -- WHICH WE THINK RICHLY DESERVED -- FOR BALANCE AND PERSPECTIVE. HER OPTIMISM ABOUT THE BRITISH ECONOMY REMAINS TO BE TESTED, OF COURSE, BUT THERE ARE AT LEAST HOPEFUL INDICATORS -- A NUMBER OF WHICH ARE ENUMERATED. WHAT IS PARTICULARLY SIGNIFICANT IS HER DESCRIPTION OF THE EFFORTS THE GOVERNMENT IS MAKING TO -- OR AT LEAST APPEAR TO -- WIPE "BENNISM" COMPLETELY FROM ITS ESCUTCHEON.

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## Message Attributes

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